

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4425-01
Bill No.: HB 1877
Subject: Education, Elementary and Secondary; Gambling; Taxation and Revenue -
General
Type: Original
Date: February 19, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$241,399 to UNKNOWN)	\$0	\$0
Schools of the Future Fund	\$164,868,640 to \$197,881,300	\$150,868,640 to \$207,181,300	\$151,868,640 to \$208,181,300
Total Estimated Net Effect on <u>All</u> State Funds	UP TO \$197,639,901	\$150,868,640 to \$207,181,300	\$151,868,640 to \$208,181,300

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$6,985,260 to \$10,653,333	\$6,985,260 to \$13,242,222	\$6,985,260 to \$13,242,222

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Treasurer** state that this proposed legislation will have no fiscal impact on their agency.

SECTION 313.805 and 313.820 - Repeal Loss Limit and Raise Admission Fee by \$1

In response to a similar proposal (SB 914), officials from the **Missouri Gaming Commission (GAM)** state this bill would not affect the operation of their agency. GAM estimates that it would, however, generate additional revenue for the state of Missouri based upon the following calculations;

Admission Fee Increase:

Projected admissions before repeal of \$500 loss limit (Includes \$1 admission fee increase)	\$47,661,299
Additional admissions related to repeal of loss limit	<u>\$ 2,320,000</u>
Projected annual increase in admissions if bill passes	\$49,981,299

Gaming Tax Increase:

Increase of AGR tax to state related to repeal of loss limit:

FY 2003	\$75,000,000
FY 2004	\$98,300,000
FY 2005	\$98,300,000

	FY 2003	FY 2004	FY 2005
Increased admission fee revenue	\$49,981,300	\$ 49,981,300	\$ 49,981,300
Increased of AGR from repeal of loss limit	\$75,000,000	\$ 98,300,000	\$ 98,300,000
TOTAL INCREASE FROM PROPOSAL	<u>\$124,931,300</u>	<u>\$148,281,300</u>	<u>\$148,281,300</u>

Oversight reviewed the effect of the loss limits on the state of Iowa and found that Iowa's win per patron increased by approximately \$7.50 when they abolished loss limits. According to reports by the Gaming Commission, the average Adjusted Gross Receipts (AGR) per patron for the last twelve months (February 2001 through January 2002) was \$51.44. Oversight assumes this proposal would increase the AGR per patron in Missouri to \$58.94. Assuming a 5% increase in the number of admissions, Oversight estimates the state impact from gaming tax would be \$46,653,000 annually, of which 90% goes to the State and 10% goes to the home dock cities and

ASSUMPTION (continued)

counties. For fiscal note purposes, Oversight will range the potential fiscal impact from the low to high estimates in gaming tax revenues. Oversight has utilized GAM's estimate for increased admissions.

Oversight assumes only the increase in the State's portion of the admission fee and the gaming tax would be available to the Schools of the Future Fund. Oversight assumes the home dock cities and counties would keep their portion of the increased revenue resulting from this proposal.

Oversight assumes GAM's response only related to the State's increased revenue projection, therefore, to determine GAM's estimate of the home dock cities and counties' portion, Oversight divided the estimated increase in gaming tax by 90% (18% of 20%) and then multiplied by 10% (2% of 20%).

SECTION 313.822 - Increasing Gaming Tax to 22% (From 20%)

The gaming tax collected for FY 2001 totaled \$210,419,900. So far in FY 2002 (through January), the collections have been \$136,410,960, which if annualized would be \$233,847,360 (\$136,410,960 / 7 months x 12 months). Since these totals represent 20% of the adjusted gross receipts of the gaming casinos, **Oversight** assumes an additional 2% tax added on, would represent roughly 10% (2% / 20%) increase over the tax already collected. Therefore, 10% of FY 2002's \$233,847,360 is roughly \$23,00,000.

SECTION 136.320 - Amnesty of Penalties, Additions, and Interest

The following agencies responded to similar legislation (Perfected HCS for HB 1150, 1237, & 1327):

Officials from the **Department of Elementary and Secondary Education (DES)** assumes all new revenues resulting from the amnesty provision shall be deposited into the state school moneys fund and distributed to school districts.

Officials from the **Office of the State Courts Administrator (CTS)**, the **Attorney General's Office (AGO)**, the **Office of the State Treasurer (STO)** and the **Office of Administration, Administrative Hearing Commission (AHC)** assume this bill has no fiscal impact to their agencies.

Officials of the **Department of Revenue (DOR)** state this legislation provides statutory procedures for a limited tax amnesty program.

ASSUMPTION (Continued)

DOR assumes the portion of the proposal indicates amnesty only applies to state taxes but it should also include local taxes DOR collects. An amnesty sales tax form will need to be developed.

DOR assumes overtime may be incurred to have the amnesty wrapped up within the 60 days proposed in the legislation with notification back to the taxpayer of approval or not. Additional postage will be incurred, it is unknown, it could be \$10,000 or much more. It will depend on taxpayer response to the amnesty.

DOR assumes this legislation will impact several separate and unique systems MINITS, COINS, Employer Withholding, MITS, Motor Vehicle Delinquent Fee. Each of the systems will need program changes to generate letters to notify taxpayers of the amnesty program. Approval letters will also need to be generated. Each system will need to be programmed to earmark the amount collected as a result of the amnesty to the school moneys fund instead of GR. An amnesty program will need to be developed for each tax system in order to monitor and administer the program. DOR estimates that the above program changes (to all tax systems) will require 6,055 hours of programming for a total cost of \$201,995. The State Data Center cost to implement the proposed legislation will be \$39,404.

Officials from the **Office of Administration - Division of Budget and Planning** estimated a fiscal impact of \$15,000,000 as a result of this portion of the proposed legislation.

Officials of the **Office of the Secretary of State (SOS)** assume this bill establishes procedures relating to assessment and collection of taxes for the DOR. DOR may promulgate rules to implement this bill. These rules will be published in both the *Missouri Register* and the *Code of State Regulations*. Based on experience with other divisions, the rules, regulations and forms issued by DOR could require as many as 16 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23. The estimated cost of a page in the *Code of State Regulations* is \$27. The actual cost for FY03 is estimated at \$984 but could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would be made in subsequent fiscal years.

ASSUMPTION (Continued)

SECTION 144.140 & 144.170 - Reduction of Discount for Remitted Sales and Use Tax Payments from 2% to 0.5%

LMD:LR:OD (12/01)

According to the **Department of Revenue (DOR)**, in FY 2000, they collected \$2,765,074,507 in sales and use taxes for the General Revenue Fund, Conservation Commission, Parks and Soils, Highway Use and Education. Approximately \$308,475,365 of that was for motor vehicle sales, leaving \$2,456,699,142 of sales taxes from all other sources. **Oversight** has no way of knowing what percentage of the remainder are annual filers and would therefore still get to keep 2% of the sales taxes collected if they file timely. Oversight also does not know how many of the remainder took advantage of the 2% discount for timely filing.

Since the threshold for a filer to qualify for an annual filer instead of quarterly is \$45 per quarter, Oversight will assume that the large majority of the sales tax revenue generated in the state is from quarterly, monthly or quarter-monthly filers. Therefore assuming that sales tax remittances for motor vehicle sales are not allowed to utilize the 2% discount, and that nearly all of the sales and use tax revenue generated are not from the calendar filers, and that all filers in FY 2000 took advantage of the 2 percent discount, Oversight assumes the reduction in the discount rate from 2% to 0.5% could result in roughly \$37,600,000 of additional revenue.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** provided an estimate of \$24,900,000 for fiscal year 2003, with growth of \$1,000,000 a year thereafter. Due to the assumptions Oversight had to work with, Oversight will use the estimate of revenue provided by BAP.

SECTION 144.190 - Erroneously Paid Tax

In a similar prior proposal (SB 632), officials from the **Department of Revenue (DOR)** assumed this legislation could result in a decrease in sales tax refunds for FY 03 of approximately \$22 million. DOR assumed there would be minimal programming changes that could be completed with existing resources.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** provided an estimate of \$10,000,000 annually in decrease in sales tax refunds. **Oversight** will use the BAP estimate.

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
GENERAL REVENUE			
<u>Income</u> - General Revenue			
Amnesty Tax Revenue	\$15,000,000	\$0	\$0
<u>Income</u> - Reduction in Sales Tax Refunds	\$10,000,000	\$10,000,000	\$10,000,000

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
<u>Cost</u> - Department of Revenue			
Postal	(Unknown)	\$0	\$0
Programing	(\$241,399)	\$0	\$0
<u>Loss</u> - General Revenue			
Decrease in additions to tax, penalties and interest	(Unknown)	\$0	\$0
<u>Transfer Out</u> - Schools of the Future Fund			
Amnesty Tax Revenue	(\$15,000,000)	\$0	\$0
<u>Transfer Out</u> - Schools of the Future Fund Reduction in sales tax refunds (144.190)	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$241,399 TO UNKNOWN)</u>	<u>\$0</u>	<u>\$0</u>

SCHOOLS OF THE FUTURE FUND

<u>Transfer In</u> - General Revenue	\$25,000,000	\$10,000,000	\$10,000,000
<u>Income</u> - Reduction of remittance deduction from 2% to 0.5% for quarterly, monthly, or quarter-monthly sales tax remittance (144.140 and 144.710)	\$24,900,000	\$25,900,000	\$26,900,000
<u>Income</u> - Increase admission fee for gambling boat from \$2 to \$3 (313.820)	\$47,661,300	\$47,661,300	\$47,661,300
<u>Income</u> - Admission fee increase from repeal of \$500 loss limit (313.805)	\$2,320,000	\$2,320,000	\$2,320,000
<u>Income</u> - Gaming Tax increase due to repeal of \$500 loss limit (313.805)	\$41,987,340 \$75,000,000	\$41,987,340 to \$98,300,000	\$41,987,340 to \$98,300,000
<u>Income</u> - increase gaming tax to 22% of adjusted gross receipts (313.822)	<u>\$23,000,000</u>	<u>\$23,000,000</u>	<u>\$23,000,000</u>

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
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ESTIMATED NET EFFECT TO THE SCHOOLS OF THE FUTURE FUND	<u>\$164,868,640 to</u> <u>\$197,881,300</u>	<u>\$150,868,640 to</u> <u>\$207,181,300</u>	<u>\$151,868,640 to</u> <u>\$208,181,300</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2003	FY 2004	FY 2005
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HOME DOCK CITIES AND COUNTIES

<u>Income</u> - gaming tax from repeal of \$500 loss limit (313.805)	\$4,665,260 to \$8,333,333	\$4,665,260 to \$10,922,222	\$4,665,260 to \$10,922,222
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<u>Income</u> - admission fee increase from repeal of \$500 loss limit. (313.805)	<u>\$2,320,000</u>	<u>\$2,320,000</u>	<u>\$2,320,000</u>
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ESTIMATED NET EFFECT TO HOME DOCK CITIES AND COUNTIES	<u>\$6,985,260 to</u> <u>\$10,653,333</u>	<u>\$6,985,260 to</u> <u>\$13,242,222</u>	<u>\$6,985,260 to</u> <u>\$13,242,222</u>
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FISCAL IMPACT - Small Business

Small Businesses can expect to be fiscally impacted due to this proposed legislation.

DESCRIPTION

DESCRIPTION (continued)

This proposed legislation changes various provisions of law to establish additional funding for schools. The proposal:

- (1) Section 136.320 - Authorizes a tax amnesty program allowing taxpayers to pay various back taxes owed prior to December 31, 2001, without penalty, additions to tax, or interest if the tax liability is paid in full during the period of August 1, 2002, through September 30, 2002;

- (2) Section 144.710 - Reduces the timely filing allowance for certain retailers who submit sales and use tax collections in a timely manner from 2% to one-half of 1%. Only retailers who submit tax collections on a quarterly, weekly, or quarter-monthly basis will be affected;
- (3) Section 144.190 - Requires that any request for a refund of sales taxes by a person who collects and remits the tax will only be granted if the person making the request demonstrates to the satisfaction of the Director of the Department of Revenue that the amount will be refunded or credited to the person who originally paid the sales tax. The restriction will not apply if the person seeking the refund shows to the director's satisfaction that he or she originally paid the tax and that it was not collected from the purchasers;
- (4) Section 313.805 - Removes the
- (5) Section 313.820 - Increases the admission fee charged against an excursion gambling boat for each patron entering an excursion gambling boat from \$2 to \$3; and
- (6) Section 313.822 - \$500 loss limit per cruise per patron for persons wagering on excursion gambling boats; Increases the adjusted gross receipts tax paid by excursion gambling boats from 20% to 22%.

All revenues resulting from these changes will be deposited in the Schools of the Future Fund, created in the bill. All moneys in the fund will be used solely for the purpose of fully funding state aid to public schools.

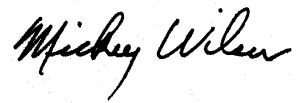
The proposal contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Missouri Gaming Commission
Department of Revenue
Office of Administration
Division of Budget and Planning
Office of Secretary of State
Administrative Rules Division
Office of State Treasurer
Office of State Courts Administrator
Office of Attorney General

LMD:LR:OD (12/01)

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Acting Director
February 19, 2002